

**Before the
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001**

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

**STAMPS.COM'S ANSWERS TO THE
INTERROGATORIES OF DOUGLAS F. CARLSON (DFC/STAMPS.COM-T1-1- 8)**

Stamps.com hereby submits the answers of Frank R. Heselton to the interrogatories submitted by Douglas F. Carlson, DFC/Stamps.com - T1 - 1 - 8, dated May 30, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

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Dated: June 13, 2000

Please refer to your testimony at page 10, lines 4–7.

- (a) Please confirm that QBRM mail is prepared using FIM “C”. If you do not confirm, please explain.
- (b) Please confirm that an AFCS machine sorts FIM “C” mail to the stackers for pre-bar-coded mail and that pre-bar-coded mail is taken directly to a BCS. If you do not confirm, please explain.
- (c) Please confirm that IBIP mail proposed for a discount would be prepared using FIM “D”. If you do not confirm, please explain.
- (d) Please confirm that an AFCS machine sorts FIM “D” mail to the stackers for typewritten mail, not the stackers for pre-bar-coded mail. If you do not confirm, please explain.
- (e) Please confirm that IBIP mail receives its outgoing primary sortation either through the RBCS system (if the AFCS machine is set in the “lift everything” mode) or on an MLOCR (if the AFCS machine is set to lift script mail only). If you do not confirm, please explain.
- (f) Please identify the mail-processing costs that QBRM mail avoids when it bypasses RBCS or an MLOCR for outgoing primary sortation.
- (g) Please confirm that both IBIP mail and typewritten mail flow to the same next step (MLOCR or BCS OSS) in processing after being faced and cancelled on an AFCS machine. If you do not confirm, please explain.
- (h) Suppose the AFCS is set in “lift everything” mode. Two envelopes pass through the AFCS machine: (1) an IBIP envelope printed with a delivery-point bar code, and (2) a typewritten, stamped envelope with no bar code. Please confirm that the RBCS system will not use the delivery-point bar code already printed on the IBIP envelope, will resolve each address using OCR recognition technology to determine the correct bar code, and will spray a bar code onto each envelope. If you do not confirm, please explain.
- (i) Suppose two envelopes pass through an MLOCR: (1) an IBIP envelope printed with a delivery-point bar code, and (2) an OCR-readable, typewritten, stamped envelope with no bar code. Please explain how, if at all, the IBIP envelope will avoid mail-processing costs compared to the typewritten envelope during MLOCR processing.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.

(c) Confirmed.

(d, e, g, h, i) I am not a mail processing expert. However, I believe the most efficient way to process IBIP letters is for the AFC to sort all FIM mail to a FIM mail stacker, and for that mail to receive outgoing processing on barcode readers. I understand that some offices do in fact use that approach. Since IBIP mail is currently a small portion of the mailstream, other offices may find other approaches more economical. As IBIP volumes grow, however, I anticipate that IBIP letters will be processed like other FIM mail.

(f) USPS LR-I-146, prepared by USPS witness Campbell, contains the documentation supporting the QBRM discount calculation using the Commission's costing methodology. The following information appears at pages 3 and 4, column 9:

<u>Outgoing Operation</u>	<u>Handwritten</u>	<u>Cents per Piece</u>
		<u>QBRM</u>
RBCS		
ISS	0.0313	0.0000
RCR	0.5042	0.0000
REC	1.3392	0.0000
OSS	0.6052	0.0000
LMLM	0.2033	0.0000
Primary		
Automation	0.0212	1.1435
Manual	0.4788	0.3836

DFC/STAMPS.COM-T1-2.

Please refer to your testimony at page 10, lines 11–14.

- (a) Please state the basis for your statement that over one third of customer letters would have been prepared with handwritten addresses had IBIP not been available.
- (b) Please confirm that automation can fully resolve a substantial percentage of handwritten addresses. If you do not confirm, please explain.
- (c) Please confirm that omission of a ZIP+4 Code in a typewritten, OCR-readable address is inconsequential for mail processing because the MLOCR will perform a database lookup and spray a correct delivery-point bar code. If you do not confirm, please explain.

RESPONSE

- (a) At the time I prepared my testimony, I understood that a survey showed that at least one-third of customer letters would have been prepared with handwritten addresses. My estimate is also based on information in the testimony of Stamps.com's witness Leora E. Lawton (Stamps.com-T-3). Dr. Lawton states that her survey of Stamps.com customers shows that over three-fourths used stamps as postage prior to using Stamps.com (page 18). Customers also indicated that, prior to their use of Stamps.com, their business letters never or infrequently had a nine-digit ZIP Code (page 14). One-half to two-thirds of those surveyed indicated their #10 envelopes never had a POSTNET Code (page 15), and three-quarters stated that their mail lacked a FIM Code (page 17). I also note the survey is believed to overstate customers' prior use of 9-digit ZIP Codes, POSTNET Codes, and FIM Codes, thereby understating the amount of mail that lacked these features (page 7). Based on the high usage of stamps and high percentage of mail preparation that omitted automation features, I conclude that at least one-third of letters probably were hand addressed.

- (b) According to the Decision Analysis Report on "Remote Reader 2000

Handwriting Recognition Upgrade" of January 28, 1999, the Remote Computer Reader (RCR) handwriting recognition rate was expected to be 53 percent (USPS-I-164 at 5). I note that costs still are incurred to resolve handwriting by automation, even though these costs are less than those incurred by other features of RBCS processing. In addition, even if a handwritten mailpiece can be read by RCR technology, it still will not have gone through all of the address cleansing and matching procedures required for IBIP mail, and thus may contain address deficiencies.

- (c) I do not know whether omission of a ZIP+4 Code in a typewritten, OCR-readable address is "inconsequential." I can confirm that the MLOCR will perform a database lookup and spray a correct delivery-point bar code. The MLOCR, however, cannot provide the type of address deficiency corrections among multiple possible choices that is performed for IBIP mail.

DFC/STAMPS.COM-T1-3.

Please refer to your testimony at page 11, lines 2–4.

- (a) Please confirm that some IBIP envelopes replace non-IBIP envelopes that would have been typewritten and fully OCR-readable. If you do not confirm, please explain.
- (b) Please confirm that some IBIP envelopes replace non-IBIP envelopes that would have cost no more to process than IBIP envelopes. If you do not confirm, please explain.

RESPONSE

- (a) Confirmed. Note, however, that the percentage of IBIP envelopes that replace non-IBIP envelopes that would have been typewritten and fully OCR-readable is considerably less than the percentage of QBRM envelopes that replace non-QBRM envelopes that would have been typewritten and fully OCR-readable. The rationale for using handwritten letters as a benchmark for estimating the cost avoided by IBIP-prepared letters, therefore, is considerably stronger than the rationale for using handwritten letters for estimating the cost avoided by QBRM letters.
- (b) This is possible, but I am unaware of the existence of a substantial percentage of non-IBIP letters prepared by individuals and small businesses to automation standards, with eleven-digit barcodes and FIM codes, and with addresses checked against the AMS database, that would cost the same to process and deliver as IBIP letters.

DFC/STAMPS.COM-T1-4.

Please refer to your testimony at page 20, lines 17–18. Suppose a customer attempts to send an envelope using Stamps.com software to an address, but the address the customer supplies has a missing or invalid directional or suffix. Suppose, further, that the Stamps.com software offers the customer choices to fix the deficiency. Please explain how you can be sure that the customer will choose the correct remedy for the deficiency, thus ensuring that the letter will be deliverable as addressed.

RESPONSE

I think it is highly likely the customer will choose the correct remedy for the deficiency. Customers want their mail delivered to the appropriate address. When Stamps.com software indicates a problem with an address input by the customer, the customer will endeavor to fix it. The software will present the customer with a list of choices, all of which are standardized and validated addresses. The addresses at the top of the list most likely are closest to the customer's initial input, and serve as prompts for the customer. The customer must resolve the problem by identifying the appropriate address from the choices presented, either upon simple inspection or by obtaining additional information on the address from elsewhere. If this does not resolve the problem, the customer is better served by using an alternate method of preparing mail, because failure to select the appropriate address in IBIP will misdirect the mail piece.

DFC/STAMPS.COM-T1-5.

Please refer to your testimony at page 20, lines 17–18.

- (a) Would you consider a letter addressed to a nonexistent house number on a valid street to be a delivery-line deficiency? If not, please explain.
- (b) Please confirm that Stamps.com software will allow a customer to print an IBIP mail piece addressed to some nonexistent house numbers on valid streets. If you do not confirm, please explain. (For example, using Stamps.com software, I successfully printed an IBIP envelope addressed to 243 Calvin Place in Santa Cruz, California, even though no house on Calvin Place has the number 243. The number 243 falls in a valid number range — this street has numbers 101 through 268 — but number 243 does not exist.)

RESPONSE

- (a) Yes.
- (b) The Stamps.com software will allow a customer to print an IBIP mail piece to any address in the Postal Service's AMS database. While that database is very accurate, it is not 100 percent accurate. CASS certification requires 98 percent accuracy in a number of different tests, indicating a very high degree of reliability, but not perfection. This degree of error is not significant to my calculation of cost avoided by IBIP preparation and addressing.

DFC/STAMPS.COM-T1-6.

- (a) Please confirm that your cost-avoidance analysis is based on the costs that QBRM mail avoids, with adjustments for additional reduced costs associated with UAA mail. If you do not confirm, please explain.
- (b) Please confirm that QBRM mail typically is deposited loose in the collection stream. If you do not confirm, please explain.
- (c) Please confirm that customers may properly bundle IBIP letters. If you do not confirm, please explain.
- (d) Please confirm that the Postal Service should handle properly bundled IBIP letters as bundled metered mail. If you do not confirm, please explain.
- (e) Please discuss the amount of mail-processing costs (per letter) that are avoided in processing bundled metered letters compared to the benchmark of loose, handwritten letters.

RESPONSE

- (a) Confirmed. See my testimony at lines 20 to 25 on page 7 and lines 1 to 8 on page 8.
- (b) Confirmed. QBRM mail typically is deposited loose in the collection stream, as is IBIP mail.
- (c) Confirmed. I am not aware of any restriction on bundling IBIP mail, but there is no rate incentive to encourage customers to bundle such mail.
- (d) Not confirmed. In many cases, it would be more expeditious for the Postal Service to take such mail directly to a barcode reader for processing, which could not be done with bundled metered mail.
- (e) I cannot discuss this subject area because I have not studied it.

DFC/STAMPS.COM-T1-7.

- (a) Please confirm that improperly dated IBIP and metered mail generally incurs additional processing costs above the costs that properly dated IBIP and metered mail will incur. If you do not confirm, please explain.
- (b) Please confirm that Stamps.com software, when printing postage, defaults to the current date in the user's computer and does not prompt the user to confirm that this date is the correct print date, even if the user is printing postage as late as, for example, 10:00 PM on a particular day. If you do not confirm, please explain.
- (c) Please confirm that the feature of the Stamps.com software described in (b) is likely to lead to a greater amount of incorrectly dated IBIP mail being deposited in the mail stream than if the software required customers to confirm that the date the system proposed to print on the indicia was, in fact, the customer's intended date of mailing. If you do not confirm, please explain.

RESPONSE

- (a) Not confirmed. Improperly dated IBIP and metered mail incur the same per piece processing costs incurred by properly dated IBIP and metered mail. They receive the same mail processing and delivery.
- (b) Not confirmed. I am informed that the Stamps.com software pulls the current date from the Stamps.com postage servers. It does not default to the current date in the user's computer.
- (c) Not confirmed. The date on the indicium does not have to be the date on which the customer mails the piece. The Postal Service requires that mail be deposited within 24 hours of the date on the indicium, and most customers are accustomed to mailing within 24 hours of printing. If they anticipate delay, the Stamps.com software provides an easy way to postdate the mail piece.

DFC/STAMPS.COM-T1-8.

Please refer to your testimony at page 25, lines 18–23 and page 26, lines 1–8.


- (a) Do the Postal Service's limitations on envelope size, shape, and weight for automation compatibility apply for loose mail that must pass through the culling, facing, and cancelling system? Please provide any citations to the record, postal manuals, or postal regulations that would support an affirmative answer to this question.
- (b) Do you believe that #10 envelopes that weigh three ounces will be sufficiently thin that they will be processed successfully through the culling system and the AFCS? Please explain.
- (c) Should IBIP letters receive a four-cent discount based on automation compatibility if the letters are rejected from the culling system for being too thick? Please explain.

RESPONSE

- (a) Mail that must pass through culling, facing and canceling operations is not limited to that which meets the Postal Service's standards for envelope automation compatibility.
- (b) Yes. I believe automated equipment can handle letters weighing three ounces. For example, automation non-carrier route presort letters are limited to 3.3103 ounces. As a practical matter, the percentage of letters that weigh over three ounces is too small to influence estimates of the costs avoided by IBIP letters.
- (c) IBIP letters should receive a discount for automation compatibility if they meet the preparation standards for automated processing. I doubt that a letter thick enough to be culled would meet automation compatibility standards.

DECLARATION

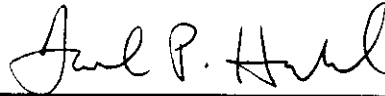
I, Frank R. Heselton, declare under penalty of perjury that the answers to interrogatories DFC/Stamps.com – T1 – 1 – 8 of Douglas F. Carlson are true and correct, to the best of my knowledge, information, and belief.


Frank R. Heselton

Dated: June 13, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this 13 day of June 2000, served the foregoing document in accordance with the Commission's Rules of Practice.

A handwritten signature in cursive script, reading "David P. Hendel", written in black ink.

David P. Hendel